UBS

UBS Asset Management
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All data as at 31 May 2022

UBS Yarra Australian Small Companies Fund

May 2022

Fund description

The Fund is an actively managed fund investing in a portfolio of 30–60 Australian small company equity securities across a range of industry sectors.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our website.

Investment strategy

The Portfolio Manager's overarching strategy is to identify those small company shares that are believed to be undervalued by the market. Normally the Fund will hold between 30–60 stocks in companies. Companies are selected for inclusion in the portfolio after a rigorous investment process.

Investment objective

The Fund aims to outperform (after management costs) the S&P/ASX Small Ordinaries Accumulation Index over rolling five year periods.

Active security positions

Overweight	Underweight
AUB Group	Whitehaven Coal
BWP Trust	Uniti Group
Kelsian Group	NIB Holdings
Atlas Arteria	Shopping Centres Australasia Property Group RE
Auckland International Airport	Charter Hall Long WALE REIT

Active industry positions

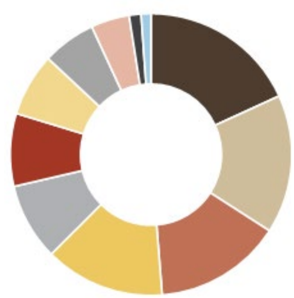
Overweight	Underweight
Health Care Equipment & Services	Materials
Transportation	Real Estate
Insurance	Energy
Diversified Financials	Retailing
Media & Entertainment	Commercial & Professional Services

Fund information

Inception date	31 March 2004
Fund size	$ 137.9 m
Management fee	0.85% pa
Performance fee*	Yes
Minimum initial investment	$50,000
Typical number of holdings	30 to 60
Distributions	Quarterly
Buy/sell spread	+/- 0.45%

* The performance fee equals 20% of the amount by which the Fund outperforms the S&P/ASX Small Ordinaries Accumulation Index.

Fund positioning (%)



Financials	18.18
Materials	15.91
Industrials	14.64
Health Care	13.78
Consumer Discretionary	8.85
Communication Services	8.35
Real Estate	7.23
Information Technology	6.14
Consumer Staples	4.42
Cash	1.36
Energy	1.12

Top 5 stocks (%)

AUB Group	4.62
BWP Trust	4.32
Flight Centre Travel Group	4.03
TPG Telecom	3.77
Kelsian Group	3.68

Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(5.83)	(3.86)	(1.47)	11.90	13.38	12.31
Benchmark**	(7.01)	(3.58)	(4.56)	5.50	8.49	5.94
Added Value	**1.18**	**(0.28)**	**3.09**	**6.40**	**4.89**	**6.37**

*Inception date: 31 March 2004. **S&P/ASX Small Ordinaries Accumulation Index. Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns..

Portfolio review

After fees and expenses, the Portfolio declined by 5.83% during the month, outperforming its benchmark by 118 bps.

The largest contributors were Infomedia, Atlas Arteria and Monadelphous. Infomedia received competing takeover proposals during the period. Private equity firm TA Associates lobbed the first bid at $1.70 per share, a 33% premium to its last traded price, before Batter Ventures, another US-based private equity firm, subsequently proposed $1.75 per share for the company. Atlas Arteria and Monadelphous outperformed without any materially positive news during the period.

The largest negative contributors were AUB Group, Whitehaven Coal (not held) and Southern Cross Media. AUB announced the acquisition of London-based Tysers, a wholesale insurance broker, for up to $1,056mn. The deal is funded from a $350mn equity raising, a new $675mn debt facility and a $176mn placement to the vendor (with deferred consideration). Whitehaven outperformed in response to higher coal prices (thermal +31%). Southern Cross Media announced a disappointing trading update during the month, with management setting FY22 EBITDA guidance $85-90mn, below consensus for $100mn.

Market review

Australian small caps declined during May as Australia's first interest rate hike since 2010 pressured valuations, with only the Energy sector recording a positive return.

The S&P/ASX Small Ordinaries Accumulation Index returned -7.0% for the month, taking its 12-month return to -4.6%. In comparison, the broader ASX300 declined 2.8% for the month while global indices were flat (MSCI World Index -0.2%). Following the decline, the Small Ords trades at a one-year forward P/E of 13.8 times, 17% below its 5-year average.

Within Energy (+2.7%), coal producers continued to rise in value amid the global energy crisis. While hard coking coal retreated 15% during the month to US$442/t, thermal coal rose another 31% to US$427/t. Whitehaven Coal (WHC) – now the largest constituent in the index – climbed +7.3% and New Hope Corporation (NHC) lifted +5.7%.

Conversely, the worst performing sectors included Consumer Discretionary (-10.9%) and Metals & Mining (-8.5%). In the former, travel services companies Corporate Travel Management (CTD, -15.5%) and Flight Centre (FLT, -9.3%) underperformed as updates suggested ongoing lower margins for international travel. In the latter, emerging lithium project developers including Sayona Mining (SYA, -31.3%) and AVZ Minerals (AVZ, -21.2%) declined sharply.

Elsewhere, Real Estate (-8.0%) also experienced widespread declines given its negative correlation to higher rates, led by Centuria Capital Group (CNI, -20.7%), Centuria Industrial REIT (CIP, -14.0%) and Home Consortium (HMC, -17.2%).

Outlook

Geopolitical events and surging commodity prices have taken centre stage in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months to try to contain rising inflation expectations. The reality for 2022 is likely a world of higher inflation, slower growth and higher financing costs awaits.

Australia does have some key natural advantages in such a climate. One of the most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat and base metals contribute close to 80% of Australia's exports and each of these commodities have seen strong price rises in 1H 2022 which will likely translate into a large positive national income boost even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015 it has ample room to adjust policy settings at a gradual pace.

Australia also has the benefit of recovering underlying household income growth, $230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert and improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In CY2022 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021 it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU) and further wage pressure will become evident into mid-2022.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via both significantly higher cash rates and a stronger currency. The A$/US$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum. Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 is providing an incentive for the A$/US$ to commence an appreciation cycle, together with the attractive carry on offer. We expect the A$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

We are most overweight stocks within the Health Care, Financials and Industrials sectors, and are underweight Materials, Real Estate and Energy.

Client Services

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia